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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002770

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SUBJECT: ELECTRICITY MINISTER OBTAINS RUSSIAN SUPPORT;
EXPLAINS GE, OMS CONTRACT ISSUES

REF: BAGHDAD 1695

Classified By: CETI Ambassador Marc Wall, reasons 1.4(b,d)

11. (C) SUMMARY: Outgoing Coordinator for Economic Transition in Iraq (CETI) Ambassador Charles Ries and incoming CETI Ambassador Marc Wall met with Electricity Minister Karim Wahid al-Hasan on August 24. Karim, who had just returned from Moscow, reported that the Russians would be sending a team to evaluate conditions before continuing negotiations to resume or complete work that they had been awarded previously, but he thought they would begin work on the Yusufiya power plant but not the Hartha power plant in Basra. He defended the GOI's track record with GE and expressed his willingness to meet with GE representatives at any time. Karim was waiting for a modified Parsons Brinkerhoff offer to continue its operations, maintenance, and sustainment operations. END SUMMARY

Moscow Fruit

12. (C) Karim reported on his August 18-20 trip to Moscow, saying that the primary purpose of the trip was to revive projects begun with Russians in the 1980s and 1990s. The Russians had agreed to send a team to Baghdad and to Basra to assess current conditions at the sites where they had contracts to build power stations. The team would submit a report, and then the Iraqis and Russians would negotiate contracts, adjusting terms to compensate for increased prices of raw materials, additional security, and other changes. The negotiations focused on two power plants: Yusufiya and Hartha.

13. (C) Karim said Yusufiya was planned to consist of 8 X 210MW generators, work on which stopped in 1991, resumed in 2001, and then stopped again in 2003. (Note: Yusufiya was never completed.) He said the construction had been planned in two stages. Work still needed to be carried out to install three units, for an original cost of \$110 million. The Russians now were demanding more, to cover a higher cost for parts and including compensation. Turning to Basra and the Hartha power plant, Karim said the Russians had agreed initially to \$24 million to build Hartha, but had recently upped the price to \$144 million to renovate the facility. The World Bank had agreed to finance \$124 million, with the Ministry of Electricity providing \$20 million. When the Russians revised the price again, to \$183 million including \$13 million for security, Karim said he had refused, telling the Russians that the Iraqis would not pay more than the agreed \$144 million. On the next day, the Russians agreed to send a team to Basra to evaluate conditions and with the aim of amending the statement of work to keep the price down.

14. (C) Karim commented that the Russians appeared to be willing to resume work only on Yusufiya and said they were

concerned about security at Basra. Karim opined that the Russians actually lacked the workers and technical experts, such as engineers, to carry out both projects simultaneously.

The Russians had committed to a number of contracts in Iraq and, Karim suggested, the best approach might be to resolve each problem one by one.

¶5. (U) Despite misleading news reports, Karim affirmed that he had not changed the GOI approach to Lukoil's claims regarding a Saddam-era contract. Lukoil had qualified to participate in a licensing round and could bid to do work in the West Qurna field on the same basis as other bidders. Karim noted that, although Lukoil's knowledge about the field might give it an advantage, the Saddam regime had terminated the contract and there was no basis to renew it. Although the Russians had attempted to link renewal of the Lukoil contract to a debt forgiveness package, Karim said he had resisted the linkage.

¶6. (U) Karim said in passing that the Russian Minister of Energy (Sergei Shmatko) had inquired why he had not received an invitation to visit Iraq, a request which had caught Karim off guard. Karim said he would brief PM Maliki (suggesting that he would seek permission to extend the invitation).

General Electric and Siemens

¶7. (C) Karim said he had a good relationship with both General Electric (GE) and Siemens, having signed contracts with both firms. While the contracts had not yet been implemented, Karim noted that GE and Siemens products would

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be essential if the Ministry of Electricity (ME) were to reach its goal of increasing generation capacity by 6,000-8,000 megawatts (MW) each year over the next two years.

Later in the meeting, Amb. Ries said GE had been concerned by recent events, including the Prime Minister's visit to Germany and his statements there and Karim's failure to appear for a meeting with GE representatives in Amman. Agreeing that he needed to speak with GE, Karim asserted that, two weeks previously, he had telephoned GE's representative in Amman to offer to meet GE in the U.S., in Houston or some other city. Prime Minister Maliki appreciated the capabilities of both GE and Siemens. In meetings with Siemens, the company had been provided with the details of prospective power projects, including the location and fuel specifications. In separate meetings, Ministry of Oil representatives had also provided information on their planned developments to Siemens.

¶8. (C) Karim then launched into a discussion of GE and Siemens' comparative advantages. He said Siemens turbines were cheaper and more reliable, and that Siemens' terms of payment were easier. When Amb. Ries observed that GE offered multi-fuel turbines, Karim rejoined that Siemens did also. ME was in discussions with Siemens to provide 10 X 165MW and 6 X 265MW generators, very large generators which meant that, on the basis of kilowatts produced, the Siemens machines were cheaper. The contract, however, included a provision that Siemens would be the sole source for spare parts; spare parts for GE equipment were more generally available and thus cheaper. Karim noted that ME planned to purchase 20 GE units, but not directly from GE. The Kuwaiti government had originally contracted to purchase the gas turbines, but, since it did not need them, ME was preparing to acquire them. ME needed them modified to run on a variety of fuels, but GE's offer for the modification had been quite expensive.

¶9. (C) In response to Amb. Ries' question, Karim said GE could improve its competitive position first of all by opening a representative office in Baghdad. In addition, GE should be more responsive to ME requests for assistance. In addition to equipment purchases, ME could use GE's assistance in providing operations, maintenance, and sustainment (OMS)

services and holding workshops to train ME personnel. ME had also asked GE for spare parts contracts for existing GE equipment, such as the Frame 9 generators. GE generally refused to provide the other services, although ME was waiting for the OMS contract. Karim complained that GE had prepared its equipment sales offers under USG pressure, but that it was not really interested in doing business in Iraq. He welcomed Amb. Ries' offer to pass on Karim's interest in having a meeting with GE. (Note: Ambassador Wall informed GE of Karim's interest in a meeting during an August 27 telcon with GE representatives.)

Parson Brinkerhoff OMS Contract

¶10. (U) Amb. Ries asked Karim about the status of Ministry of Electricity discussions with Parsons Brinkerhoff (PB) to extend an OMS contract. (Note: The U.S. Mission's Iraq Transition Assistance Office (ITAO), together with the U.S. Army Corps of Engineers, Gulf Region Division (GRD) established the OMS program to introduce modern inspection, operations and maintenance protocols at six of the ME's major power plants. Since becoming fully operational, this program has increased plant production output by 30 percent per month, and plant availability (days per month a plant operates) and reliability (hours per day a plant operates) by nearly 20 percent per month. The cost of this improved capacity is less than 20 percent of the cost of the equivalent amount of electricity gained by constructing new generation plants. The OMS program will begin to cease operations on September 9, unless the Ministry of Electricity acts to pick up the costs of the program. See reftel.)

¶11. (SBU) Karim said he normally could not extend a sole-source contract to PB, but he had sent a letter to the Prime Minister to request an exception. He did not want PB to continue its work at all of its current locations, however, since he felt that the OMS program was most beneficial in improving operations at gas turbine plants, but not so much at thermal power plants. He had asked PB for a new offer, with a revised and lower price, particularly the mark-up for security. Ries stressed that he did not disagree with an open tender, since many companies had the capability to provide the service, but an extension of the current contract would provide time to carry out a tender and ensure that the program continued without a break.

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¶12. (SBU) Karim continued to complain about the cost of the PB contract. Most of PB's \$49 million contract went to security, with only a small fraction going to actual operations. Since PB did much of its work through sub-contractors, Karim speculated that ME could economize by going directly to the sub-contractors. In addition, he noted, the GOI had hired 13 Russians at a total cost of \$1.25 million for operations at Bayji and at different fields. For its \$49 million, PB had provided fewer than 13 people. Karim stressed that he was still waiting, saying "give me an offer, so that I can take it to the Cabinet." He said he was waiting for two contract proposals, one for a monitoring system at Baghdad South and second for OMS for all gas-powered plants in Iraq. The contract would be for an additional year, to cover the maintenance season that would be needed before the summer of 2009. Amb. Ries stressed that the program should continue, so that recent increases in electricity production would be maintained.

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